



State of Washington  
Department of Revenue

# Excise Tax Advisory

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## TAXABILITY OF INCOME FROM DAYCARE MONITORING

Issued December 31, 1992

The Department in cooperation with the Superintendent of Public Instruction (SPI) has discovered that daycare monitors are confused as to their tax liabilities. This Excise Tax Bulletin is an explanation of the taxability of income received for services rendered as home daycare monitors.

Persons who engage in the business of monitoring home daycare operators are doing so under one or more federal nutrition program(s). Funds are received by SPI from the United States Department of Agriculture (USDA) and administered by SPI. The monitors contract with and are accountable to SPI. Payments from USDA are made to daycare operators as a matter of law. SPI and the monitors are used by USDA to assure that all federal regulations are met. The funds retained by the monitors which are not passed on to the daycare operators are for services provided and subject to business and occupation tax.

Monitors of home daycare operators are required to register with the Department of Revenue and are taxable on their gross income under the Service and Other Business Activities B&O tax classification. RCW 82.04.080 defines "gross income" as the value proceeding or accruing by reason of the transaction of the business engaged in and includes compensation for the rendition of services, without any deduction on account of any expenses whatsoever paid and without any deduction on account of losses. The monitors receive USDA funds, which are calculated and disbursed by SPI. Two categories of amounts are received:

- a. The majority of the income is a subsidy belonging to the daycare operators for providing qualifying meals. This portion of the funds is required by law to be passed directly to the home daycare operators within five days of receipt by the monitor. The monitor

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has no liability to pay the daycare operators if SPI fails to disburse the funds or if the federal government discontinues the program.

The amounts described in (a) are treated as a reimbursement and the monitor is not subject to B&O tax on these amounts.

- b. A portion of the income is retained by the monitor for rendering the monitoring services.

The monitor is subject to B&O tax on the income described in (b), unless some other exemption applies.

Monitors of home daycare operators who qualify under RCW 82.04.431 as "health or social welfare organizations" may take a deduction for the amounts received as their share of the income from SPI. See RCW 82.04.4297. Additionally, if their income is below the minimum taxable amount, \$1,000 per month or \$12,000 per year, their income is not subject to B&O tax.

#### CONSUMABLES AND EQUIPMENT

Monitors of home daycare operators are required to pay retail sales tax to their suppliers for purchases of consumable supplies which are used in their business activities.

#### EFFECTIVE DATE

The effective date of this bulletin is its issuance date.